

Docket:	A.18-09-013
Exhibit Number:	Cal Advocates - _____
Commissioner:	C. Rechtschaffen
Admin. Law Judge:	K. J. Bemesderfer
Witnesses:	R. Rauschmeier
	E. Odell
	S. Bajikar
	Y. Cao
	A. Nagesh



PUBLIC ADVOCATES OFFICE

**Report and Recommendations  
on the Proposed Purchase  
of the  
Bellflower Municipal Water System**



**April 26, 2019**

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## MEMORANDUM

The following report was prepared by the Public Advocates Office at the California Public Utilities Commission under the general supervision of Program & Project Supervisor Richard Rauschmeier. The Public Advocates Office is represented in this proceeding by legal counsel, Will Maguire.

Attachments referenced in this report are provided in a separate document. A statement of qualifications for each witness of the Public Advocates Office can be found following the last chapter of this report.

CHAPTER	DESCRIPTION	WITNESS
	Executive Summary	Mr. Richard Rauschmeier
1	Framework for Review of Proposed Transaction	Ms. Eileen Odell
2	Analysis of Valuations Provided and Rate Base Proposed	Mr. Sateesh Bajikar
3	Financial Implications of Proposed Transaction	Mr. Yong Cao
4	Analysis of Past, Present, and Future Rates	Ms. Anusha Nagesh
	Statements of Qualifications	all witnesses

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## EXECUTIVE SUMMARY

For any acquisition of assets by a utility, the California Public Utilities Commission (“Commission” or “CPUC”) has the obligation to ensure the rates requested by the utility to fund the acquisition are just and reasonable. As discussed in Chapter 1 of this report, the obligation to ensure reasonableness is especially important when both the buyer and seller are financially incentivized towards a higher valuation and purchase price.

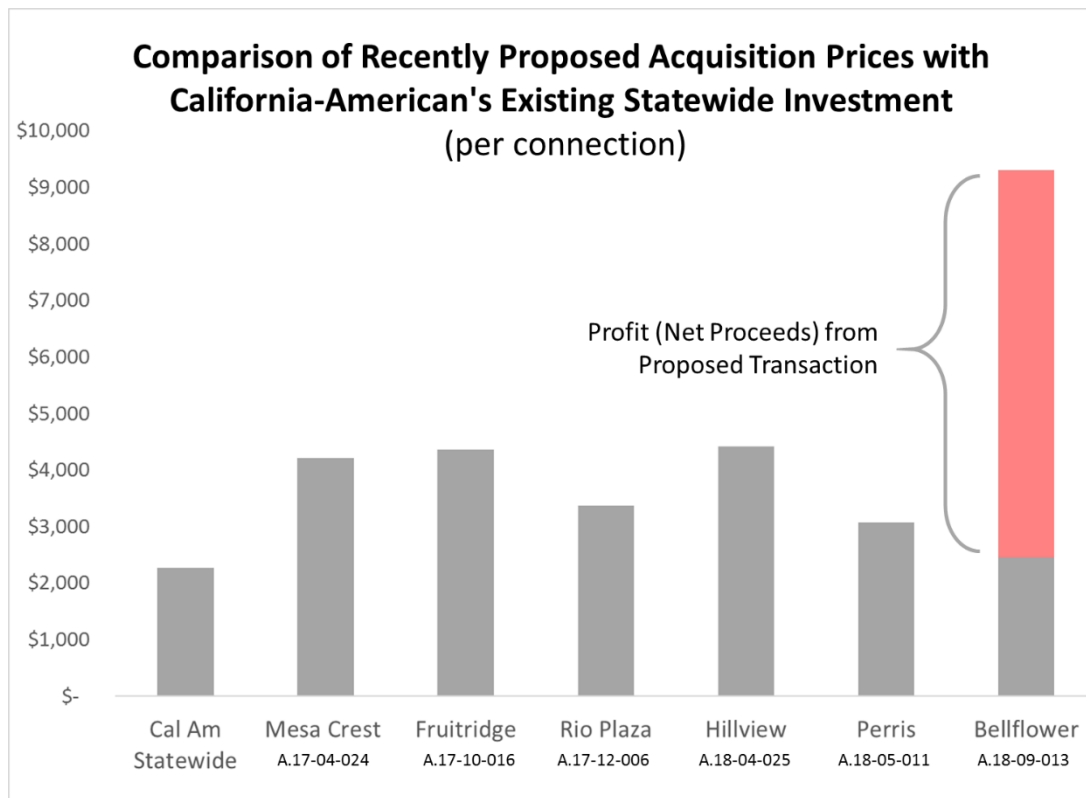
As presented in Chapter 2 of this report, the proposed acquisition price of the Bellflower Municipal Water System by California-American Water Company (“Cal Am”) is more than double the average price of recent acquisitions on a per connection basis and more than quadruple Cal Am’s existing investment per customer on a statewide basis. The proposed acquisition price is supported by valuations that are both inconsistent with each other and neglect important aspects of fair value estimation.

As discussed in Chapter 3 of this report, the proposed transaction between Cal Am and the City of Bellflower (“City”) will relieve the City of existing and anticipated liabilities exceeding \$45 million. In addition to being relieved of the responsibility to fund these liabilities with a customer base of just 1,827 connections, the City will profit from the proposed transaction with an estimated \$12 million in net proceeds, which have been earmarked for the construction of soccer fields, swimming pools, parking lots, and museums within the City of Bellflower.

As discussed in Chapter 4 of this report, in order to meet the profit accruing to the City every one of Cal Am’s existing 176,000 customers would need to contribute an additional \$0.60 per month in rates. Allocated uniformly across all of Cal Am’s ratemaking areas, the total acquisition price and estimated capital improvements would see Cal Am’s existing ratepayers eventually paying an additional \$3.40 per month. However, as recommended by Cal Am, the proposed acquisition price would be allocated between its existing Los Angeles district (62.5%) and the company’s General Office (37.5%). This would result in average system rates in Cal Am’s Los Angeles District increasing more than 3% to fund the proposed acquisition and more than 12% when all estimated capital improvements have been made to the water system.

1           The following graph (Figure ES-1) compares the proposed acquisition price of the  
2           Bellflower Municipal Water System (not including future liabilities and anticipated capital  
3           improvements) with recent proposed water utility acquisitions and Cal Am's current  
4           statewide investment on a per connection basis. For the proposed acquisition, the profit to  
5           the City of Bellflower from the proposed acquisition price is shown in red.

**Figure ES-1**



6           To avoid unreasonable burden on Cal Am's existing ratepayers and for the  
7           reasons stated above and in the following Chapters of this report, the Commission should  
8           reject Application A.18-09-013 and deny the acquisition as proposed.

# CHAPTER ONE: FRAMEWORK FOR REVIEW

## I. INTRODUCTION

This Chapter describes the intent and analytical framework of the California statutes under which investor-owned water utilities may acquire and consolidate small water systems. Additionally, this Chapter presents the technical implications of these statutes upon the Commission’s enduring responsibility to ensure the prudence and reasonableness of proposed acquisitions and their impacts when consolidated into existing operations.

## II. SUMMARY OF ANALYSIS

The Public Water System Investment and Consolidation Act (“the Investment and Consolidation Act,” “the Act,” or, where appropriate, “SB 1268”) was enacted to incentivize the purchase of smaller water systems to ensure that Californians are served by water utilities that have the financial capability to provide safe and affordable water. The law should be considered within the context of California’s 2012 statutory declaration of a human right to water, as well as within the context of monopoly rate of return regulation, where the altered dynamics of buyer and seller create the potential for the Act to be abused.

Finally, the technical implications of the Act and related statutes provide the Commission ample discretion to determine whether the proposed consolidation is in the public interest. Thus, while consolidation may benefit struggling water systems, the Act was not intended to and does not absolve the Commission of its duty to ensure that the rates that result from the consolidation are just and reasonable.

### III. ANALYSIS

#### Investment and Consolidation Act.

The California Legislature enacted Public Utilities Code (“P.U. Code” or “Pub. Util. Code”) sections 2718-2720,<sup>1</sup> collectively known as the Public Water System Investment and Consolidation Act of 1997 (“the Investment and Consolidation Act,” “the Act,” or “SB 1268”), in order to provide water corporations with an incentive to acquire public water systems that “are faced with the need to replace or upgrade . . . infrastructure to meet increasingly stringent state and federal safe drinking water laws and regulations governing fire flow standards for public fire protection.”<sup>2</sup> In particular, the Legislature found that “providing water companies with an incentive to achieve . . . scale economies [through consolidation] will provide benefit to ratepayers.”<sup>3</sup> Prior to the enactment of the Investment and Consolidation Act, the Commission could authorize only the original cost of the acquired system, less depreciation, as the system’s rate base.<sup>4</sup> Legislators sought to incentivize consolidation through the Act by requiring the Commission to use the “fair market value” of the distribution system of the acquired system in the rate base<sup>5</sup> value when setting rates for the acquired system.<sup>6</sup>

As noted above, the Legislature sought to incentivize public water system consolidation because smaller water systems may find it difficult to afford the infrastructure investments necessary to satisfy increasingly stringent water quality regulations. Legislative analysis of SB 1268, now the Investment and Consolidation Act, notes that:

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<sup>1</sup> Pub. Util. Code §§ 2718-2720.

<sup>2</sup> Pub. Util. Code § 2719.

<sup>3</sup> *Id.* at Pub. Util. Code § 2719 (d).

<sup>4</sup> Decision (D.)99-10-064, Order Instituting Rulemaking on the Commission’s Own Motion to Set Rules and to Provide Guidelines for the Acquisition and Mergers of Water Companies at 4 (Oct. 22, 1999).

<sup>5</sup> Rate base is the portion of a utility’s costs on which the opportunity to earn an authorized return is granted by the Commission.

<sup>6</sup> Pub. Util. Code § 2720 (a).



1 [w]ater systems, both investor-owned and municipal, are finding it  
2 increasingly costly to meet water quality standards. The problem is more  
3 acute for smaller water systems who cannot take advantage of scale  
4 economies in the water supply business. National Academy of Sciences  
5 has found that smaller water systems (i.e., water systems serving fewer  
6 than 500 customers) are more than twice as likely to violate Safe Drinking  
7 Water Act contaminate levels than water systems serving larger  
8 communities.<sup>7</sup>

9 Smaller systems, by definition, have fewer customers, and so any infrastructure  
10 upgrades are paid for by a small customer base. Thus, individual customer rates would  
11 go up more dramatically due to increased capital investment than they would if the rates  
12 that fund the needed infrastructure investment were spread out over a larger customer  
13 base. Contemporaneous legislative analysis of SB 1268 further noted that  
14 “[t]raditionally, small water systems serve small communities, especially in rural areas,  
15 with populations earning lower incomes, with higher unemployment rates and larger  
16 aging populations resulting in greater challenges in maintaining the infrastructure and  
17 meeting new clean water standards.”<sup>8</sup>

18 When considering SB 1268, the Legislature noted Proposition 218 might be one  
19 reason that municipal systems may be at particular risk of not being able to fund  
20 infrastructure upgrades.<sup>9</sup> Proposition 218 limits the ability of municipal systems to raise  
21 rates to cover needed system upgrades by requiring voter approval for new assessments.<sup>10</sup>

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<sup>7</sup> Attachment 1-1, Sept. 11, 1997 SB 1268 Bill Analysis – California Bill Analysis, Senate Rules Committee, 1997-1998 Regular Session, Senate Bill 1268, Sept. 11, 1997, Author Kelley (“Sept. 11, 1997 SB 1268 Analysis (Senate Rules Committee)”). The analysis went on to note that “California has approximately 200 CPUC-regulated water utilities. . . . Approximately three-quarters of these water utilities serve fewer than 500 customers.” *Id.*

<sup>8</sup> Attachment 1-2, Sept. 11, 1997 SB 1268 Bill Analysis – California Bill Analysis, Senate Third Reading, 1997-1998 Regular Session, Senate Bill 1268, Sept. 11, 1997, Author Kelly (“Sept. 11, 1997 SB 1268 Bill Analysis (Senate Floor)”).

<sup>9</sup> Attachment 1-1, Sept. 11, 1997 SB 1268 Analysis (Senate Rules Committee).

<sup>10</sup> DRAFT “Funding Mechanism Inventory and Evaluation,” CH2M Hill, prepared for the California Department of Water Resources, Dec. 2018 at 22:

1 Ultimately, “Proposition 218, which limits the ability of local government to raise fees  
2 and taxes, may encourage municipally-owned water systems to exit the business.”<sup>11</sup>  
3 Additionally, even absent the barriers Proposition 218 presents, public officials may find  
4 rate increases politically unpopular and may refrain from proposing or supporting prudent  
5 rate increases, potentially leading to some combination of unsafe deferred maintenance,  
6 neglected investment, or reliance on municipal general funds.

7 In the context of an increasingly stringent regulatory environment requiring costly  
8 infrastructure upgrades and voter initiatives or political realities that limit elected leaders’  
9 ability or willingness to raise water service rates, the Legislature adopted AB 685 in  
10 2012, codified as section 106.3 of the California Water Code. AB 685 declared it “the  
11 established policy of the state that every human being has the right to safe, clean,  
12 affordable, and accessible water adequate for human consumption, cooking, and sanitary  
13 purposes.” To effectuate this declaration, section 106.3 of the California Water Code  
14 states that:

15 [a]ll relevant state agencies, including the department, the state board, and  
16 the State Department of Public Health, shall consider this state policy  
17 when revising, adopting, or establishing policies, regulations, and grant  
18 criteria when those policies, regulations, and criteria are pertinent to the  
19 uses of water described in this section.

20 Scholarship on the “human right to water” notes that implementation thereof  
21 should rely, in part, on “solidarity in costs-sharing between all.”<sup>12</sup> When reasonably  
22 pursued and implemented, acquisition and consolidation of smaller water systems can  
23 present an opportunity for just such cost-sharing.

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Modifying local agency budgets to increase support for water resources management would require the support of voters, agency boards and staff, or the city or county administrations which may necessitate lobbying, letters of support, or other action by individual citizens. Increasing the capacity of local funding mechanism [sic] can be limited by voter-approved initiatives, such as *Proposition 13 of 1978* (limiting property tax increases) and *Proposition 218 of 1996* (requiring voter approval for new assessments).

Available at <https://water.ca.gov/-/media/DWR-Website/Web-Pages/Programs/California-Water-Plan/Docs/Update2018/PRD/SupportingDocs/Update-2018-PRD---Funding-Mechanism-Inventory-and-Evaluation.pdf>.

<sup>11</sup> Attachment 1-1, Sept. 11, 1997 SB 1268 Analysis (Senate Rules Committee).

<sup>12</sup> Céline Dubreuil, *The Right to Water: From Concept to Implementation* at 13, (World Water Counsel, 2006).

1           At the same time, the Legislature makes clear that the Commission is still  
2 bound by its general obligations to ensure that rates are just and reasonable.<sup>13</sup>

3           The Investment and Consolidation Act contains overpayment protection  
4 provisions and further confirms that the Commission “retains all powers and  
5 responsibilities” pertaining to the Commission’s authority to grant or deny  
6 applications for utility mergers, acquisitions, and certain transfers of stock.<sup>14</sup>

7           These provisions reinforce the duty that the Commission has to ratepayers of  
8 ensuring the proposed transactions are reasonable and in the public interest.<sup>15</sup>

9           Thus, as described in the Testimony of M. Kabirr Faal representing the City of  
10 Bellflower in Application (A.) 00-05-043, “the Act was not intended as a  
11 mechanism to allow shareholders of merging companies to generate unreasonable  
12 profits and earnings by merely changing control or ownership.”<sup>16</sup>

### 13           **Technical Implications of the Investment and Consolidation Act.**

14           The Investment and Consolidation Act must be read in the context of California’s  
15 declaration of a human right to water and the Commission’s continuing obligation to  
16 ensure that rates are just and reasonable.<sup>17</sup> These principles should guide the  
17 Commission through its analysis of what constitutes “fair market value” and what  
18 constitutes an accurate appraisal of the acquired distribution system.

19           As noted above, the Investment and Consolidation Act sought to incentivize  
20 consolidation by increasing the amount of profit an acquiring water company could make  
21 through such acquisitions. The law attempts to achieve this by allowing the Commission  
22 to authorize the “fair market value” of the distribution system, rather than the book value,

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<sup>13</sup> Cal. Pub. Util. Code § 451.

<sup>14</sup> Cal. Pub. Util. Code § 2720 (d).

<sup>15</sup> See Cal. Pub. Util. Code §§ 851-852.

<sup>16</sup> Attachment 1-3, Application 00-05-043 (Joint Application of Southern California Water Company and Peerless Water Company for Approval of a Plan of Merger of Southern California Water Company and Peerless Water Company), Exhibit 17, Prepared Direct Testimony of M. Kabirr Faal on Behalf of the City of Bellflower at 6 (May 11, 2001).

<sup>17</sup> Cal. Pub. Util. Code § 451.

1 in the system's rate base. Legislative analysis of the Investment and Consolidation Act  
2 notes:

3 [t]he PUC policy on the purchase of water systems is to value the acquired  
4 water system at book value, which is the original cost of the plant less  
5 depreciation. This valuation is extremely important because it directly  
6 effects [sic] the profitability of the acquisition. The higher the PUC values  
7 the acquisition the more the water utility profits. However, book value  
8 can often be lower than fair market value. Consequently, this PUC policy  
9 has discouraged the acquisition of water systems by water utilities. Yet,  
10 acquisitions can be in the public interest if they result in lower overall  
11 rates to customers and/or better service quality.<sup>18</sup>

12 Thus, the Act intended to create an incentive to acquire public water systems by  
13 allowing for an *increased* value, above book value, to be used as the distribution system's  
14 value rate base for ratemaking purposes. The law states that "'fair market value' shall  
15 have the same meaning as set forth in Section 1263.320 of the Code of Civil  
16 Procedure."<sup>19</sup> That section provides two distinct definitions of "fair market value:"

17 (a) The fair market value of the property taken is the highest price on the  
18 date of valuation that would be agreed to by a seller, being willing to sell  
19 but under no particular or urgent necessity for so doing, nor obliged to  
20 sell, and a buyer, being ready, willing, and able to buy but under no  
21 particular necessity for so doing, each dealing with the other with full  
22 knowledge of all the uses and purposes for which the property is  
23 reasonably adaptable and available.

24 (b) The fair market value of property taken for which there is no relevant,  
25 comparable market is its value on the date of valuation as determined by  
26 any method of valuation that is just and equitable.

27 Importantly, the legislative history of this section notes that subsection (b) was  
28 "added to the definition [of 'fair market value'] because there may be no relevant market  
29 for some types of special purpose properties such as schools, churches, parks, utilities,  
30 and similar properties."<sup>20</sup> Appreciating the purpose and significance of the addition of

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<sup>18</sup> Attachment 1-1, Sept. 11, 1997 SB 1268 Analysis (Senate Rules Committee).

<sup>19</sup> Cal. Pub. Util. Code § 2720 (a)(2).

<sup>20</sup> West's Ann. Cal. Code Civ. Pro. § 1263.320. The analysis makes clear that

1 subsection (b) is crucial for ensuring the Commission’s enduring responsibility to protect  
2 ratepayers from abusive practices and unreasonable rates.

3 The importance of adding a subsection to specifically address utility property  
4 should not be overlooked. In its original form, SB 1268 described a different  
5 methodology for determining the amount that should be placed into rate base. SB 1268  
6 did not originally refer to “fair market value” as the basis for determining the rate base  
7 amount. It referred only to “a purchase price and terms which are duly negotiated in  
8 good faith and agreed to by the governing bodies of the buyer and seller” and  
9 subsequently directed the Commission to presume that such an amount is “fair and  
10 reasonable.”<sup>21</sup> However, the language referring to the good-faith negotiations of a  
11 willing buyer and willing seller was struck out of bill, replaced by the reference to the  
12 Code of Civil Procedure’s two definitions of “fair market value.”<sup>22</sup>

13 The Legislature’s inclusion of subsection (b) recognizes that the purchase of a  
14 utility is a special type of purchase and factors other than a buyer and seller agreeing to a  
15 given price might need to be considered when determining the reasonableness of a  
16 proposed acquisition price. In broadening the options for how to determine what amount  
17 is put into rate base, the Legislature explicitly identified utilities as “special purpose  
18 properties” for which fair and equitable valuation methodologies should be used.<sup>23</sup> A

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[a]ll properties, special as well as general, are valued subject to the limits of Article 2  
(commencing with Section 810) of Chapter 1 of Division 7 of the Evidence Code . . . [which]  
provides that, regardless of whether there is a relevant market for property, its fair market value  
may be determined by reference to matters of a type that reasonably may be relied upon by an  
expert in forming an opinion as to the value of property including where appropriate, but not  
limited to, (1) the market data (or comparable sales) approach, (2) the income (or capitalization)  
method, and (3) the cost analysis (or reproduction less depreciation) formula. Id.

<sup>21</sup> Attachment 1-4, Sept. 8, 1997 SB 1268 Amended Bill Text, Amended in Assembly, 1997-1998 Regular Session, Senate Bill 1268, Author Kelly (“Sept. 8, 1997 SB 1268 Amended Bill Text”) (emphasis added). Thus, under the original terms of SB 1268, the Commission could authorize a rate base figure different from the purchase price if (1) the purchase price exceeded an appraisal that had as its basis “the value of the land together with the cost of replacing or reproducing the existing improvements thereon . . . less whatever depreciation or obsolescence the improvements have suffered,” [referred to hereafter as “replacement or reproduction cost new, less depreciation” or “RCNLD”] (Cal. Ev. Code § 820) and (2) that excess amount was found to be unfair or unreasonable based on certain listed criteria Cal. Ev. Code § 820.

<sup>22</sup> Attachment 4, Sept. 8, 1997 SB 1268 Amended Bill Text.

<sup>23</sup> West’s Ann. Cal. Code Civ. Pro. § 1263.320

1 third party, the ratepayers, is intrinsically affected by the transaction, and the  
2 Commission continues to have a duty to authorize rates that are just and reasonable,<sup>24</sup>  
3 including those rates that result from the acquisition of a system.

4 The Investment and Consolidation Act requires that the Commission compare a  
5 “fair market value” acquisition price to the distribution system’s “reproduction cost new  
6 less depreciation”.<sup>25</sup> This necessarily first requires an evaluation of the reproduction cost  
7 new less depreciation appraisal of the acquired system to determine whether it is  
8 reasonable and in conformance with the Act. Among other points of concern, the  
9 Commission should ensure that the reproduction cost new less depreciation figure  
10 proposed by the utility in fact represents solely the reproduction cost new less  
11 depreciation amount for the acquired distribution system, pursuant to the requirements of  
12 P.U. Code section 2720.<sup>26</sup> The P.U. Code requires that the distribution system, the assets  
13 for which the Commission is directed to determine rate base, represents a subset of the  
14 total assets of the system. That some acquired assets might be appropriately excluded  
15 from the “fair market value” estimation and therefore appropriately excluded from rate  
16 base was identified previously by the City of Bellflower when testifying in A.00-05-043  
17 that the value of water rights should not be included in an acquired system’s rate base  
18 because “[w]ater rights cannot be defined as collection *facilities*, or treatment *facilities*, or  
19 storage *facilities*, or distribution *facilities*.”<sup>27</sup>

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<sup>24</sup> Cal. Pub. Util. Code § 451.

<sup>25</sup> The Investment and Consolidation Act states that reproduction cost should be “determined in accordance with Section 820 of the Evidence Code” which provides:

When relevant to the determination of the value of property, a witness may take into account as a basis for his opinion the value of the property or property interest being valued as indicated by the value of the land together with the cost of replacing or reproducing the existing improvements thereon, if the improvements enhance the value of the property or property interest for its highest and best use, less whatever depreciation or obsolescence the improvements have suffered.

<sup>26</sup> Cal. Pub. Util. Code § 2720 states: “[t]he commission shall use the standard of fair market value when establishing the rate base value for the distribution system of a public water system acquired by a water corporation. This standard shall be used for ratesetting.”

<sup>27</sup> Attachment 1-3, A.00-05-043, Exhibit 17, Prepared Direct Testimony of M. Kabirr Faal on Behalf of the City of Bellflower at 8 (May 11, 2001).

1           Only after the reproduction cost new less depreciation value is determined to be  
2 reasonable should comparison with a “fair market value” be performed. If the proposed  
3 “fair market value” exceeds the reproduction cost new less depreciation, the Commission  
4 must determine whether it is fair, reasonable, and in the public interest to include the  
5 amounts that exceed reproduction cost new less depreciation in the rate base of the  
6 system. In doing so, the Commission is required to consider the following factors in its  
7 evaluation:

- 8           (1) Whether the acquisition of the public water system will  
9           improve water system reliability;
- 10          (2) Whether the ability of the water system to comply with  
11          health and safety regulations is improved;
- 12          (3) Whether the water corporation by acquiring the public water  
13          system can achieve efficiencies and economies of scale that  
14          would not otherwise be available; and
- 15          (4) Whether the effects on existing customers of the water  
16          corporation and the acquired public water system is fair and  
17          reasonable.<sup>28</sup>

18           These factors again make clear that while the Legislature is incentivizing  
19 consolidation, the resulting value of the system must be related to the value of the  
20 services the ratepayers derive from the system. The Legislature stated that it included  
21 protections against overpayment “because [in utility consolidation cases] the incentive to  
22 strike the best possible bargain is somewhat diluted. The buyer . . . can theoretically  
23 recoup even an overpayment because of his monopoly on water service.”<sup>29</sup> Thus, “both  
24 the water utility and the municipality are financially incentivized towards a higher

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<sup>28</sup> Pub. Util. Code § 2720 (b).

<sup>29</sup> Attachment 1-1, Sept. 11, 1997 SB 1268 Analysis (Senate Rules Committee).

1 valuation and purchase price.”<sup>30</sup> This dynamic must inform every aspect of the  
2 Commission’s determination of which method to utilize to determine fair market value,  
3 its assessment of the proposed reproduction cost new less depreciation value, and its final  
4 assessment of whether the rate base resulting from a proposed transaction is just,  
5 reasonable, and in the public interest.

#### 6 **IV. CONCLUSION**

7 The Commission has the duty to analyze the reasonableness of the results of the  
8 utility’s proposal. This requires review of the purchase price, to ensure that the incentive  
9 for both buyer and seller to agree to a higher valuation and purchase price has not led to  
10 overpayment. This requires review of the reproduction cost new less depreciation  
11 proposal, to ensure that an unreasonably high appraisal has not been used in support of a  
12 “fair market value” determination. This ultimately requires review of the rate base  
13 resulting from the proposed transaction, to ensure that the rate base the Commission  
14 authorizes is just, reasonable, and in the public interest.

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<sup>30</sup> Joint Testimony of the Public Utilities Regulatory Authority (“PURA”) and Office of Consumer Counsel (“OCC”), sponsored by John W. Betkoski, PURA and Elin Swanson Katz, Consumer Counsel, to the State of Connecticut Energy and Technology Committee, (Feb. 19, 2019) at 2. This Testimony concerned Connecticut Senate Bill No. 222, “An Act Concerning the Sale of Municipal Water Supply and Wastewater Utility Assets.” The Connecticut Public Utilities Regulatory Authority and its Office of Consumer Counsel oppose SB 222, a proposed Connecticut bill which would require PURA, the state’s utility regulating authority, “to approve the sale and allow in the water utility’s rate base (rate setting formula) the lower of the negotiated sales price or the average fair market value of the municipal water system as determined by appraisers hire [sic] by the water utility and the municipality.”



1 **CHAPTER TWO:**  
2 **VALUATION AND RATE BASE**

3 **I. INTRODUCTION**

4 This Chapter presents an analysis of the valuations provided by applicants  
5 Californian American Water (“Cal Am”) and the City of Bellflower (“City”) for the  
6 Bellflower Municipal Water System (“BMWS”) in application A.18-09-013  
7 (“Application”). In arriving at the conclusions and recommendations contained in this  
8 Chapter, the Public Advocates Office conducted a review and analysis of the Application  
9 and its exhibits, recent acquisition proceedings, professional literature, and responses to  
10 discovery.

11 **II. SUMMARY OF ANALYSIS**

12 The Commission should deny the Application for the following reasons.

13 The Application requests an unreasonably large rate base compared with Cal Am’s  
14 existing rate base per customer and recent applications to acquire other water systems.

15 Cal Am’s methodology to estimate proposed rate base is not consistent with Public  
16 Utilities Code Section 2720 (a).<sup>31</sup> Additionally, the valuations of the BMWS provided  
17 in support of the Application are inconsistent with each other and neglect important  
18 valuation aspects that lead to an inflated valuation. Furthermore, the valuation of system  
19 assets submitted by Cal Am was conducted more than a year after Cal Am had offered  
20 the City \$17,000,000 to acquire the BMWS.<sup>32</sup>

21 As a result of flawed valuation analyses and unreasonable requests, the  
22 Application, if approved, would burden existing Cal Am customers with rates that are  
23 neither just or reasonable.<sup>33</sup>

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<sup>31</sup> Cal. Pub. Util. Code § 2720 (a)

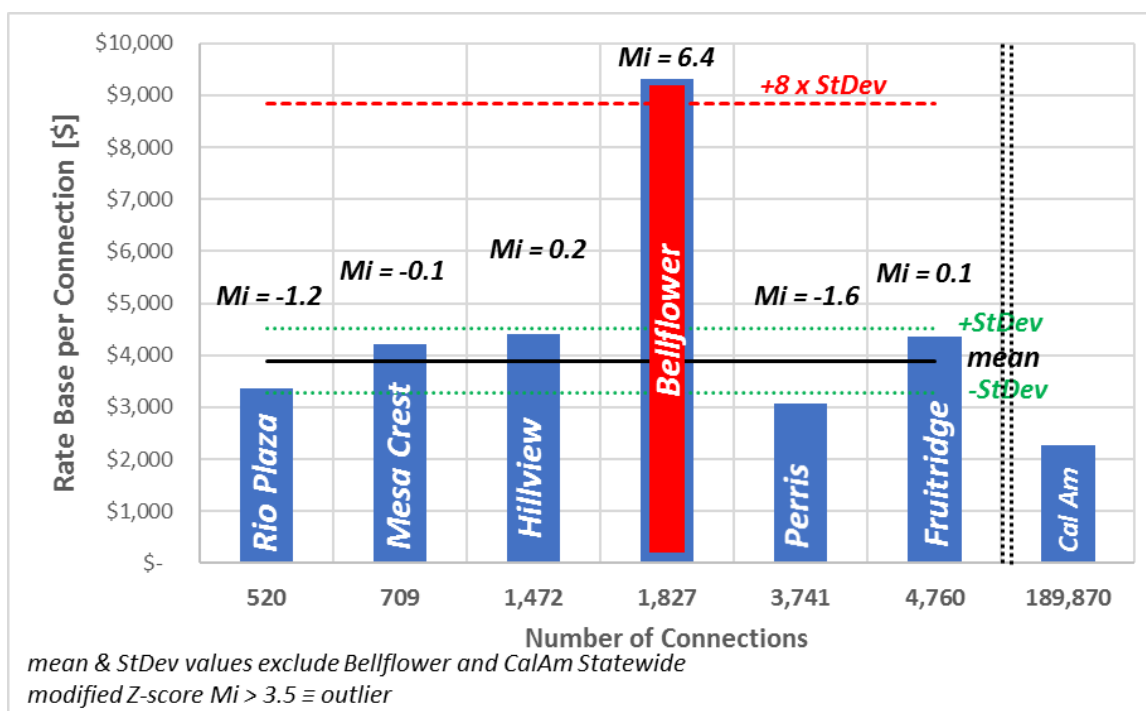
<sup>32</sup> See Attachment 2 of the Direct Testimony of Michael Wademan

<sup>33</sup> See Chapter 4 for analysis by Public Advocates Office’s witness, Ms. Anusha Nagesh.

### III. ANALYSIS

#### The Proposed Transaction Would Result in an Unreasonably Large Rate Base When Compared to Cal Am's Existing Rate Base per Customer and that of Other Recent Acquisitions.

Figure 2-1 provides a comparison of rate base per connection resulting from the Application on a stand-alone<sup>34</sup> basis with that of Cal Am's existing statewide system and that of five other recent water system acquisition applications.<sup>35</sup>



**Figure 2-1: Rate base per Connection**

The rate base per connection proposed in the Application is a clear outlier-determined statistically using the “modified Z-score”,  $M_i$  approach recommended by Iglewicz and Hoaglin for small data sets such as this one.<sup>36</sup> Calculated  $M_i$  values for all

<sup>34</sup> Shown on a stand-alone basis where rate base has not been consolidated with other ratemaking areas

<sup>35</sup> Applications A.17-12-006 (Rio Plaza, Ventura County), A.17-04-024 (Mesa Crest, L.A. County), A.18-04-025 (Hillview, Madera County), A.18-05-011 (Perris, Riverside County), A.17-10-016 (Fruitridge, Sacramento County) to the CPUC.

<sup>36</sup> NIST/SEMATECH e-Handbook of Statistical Methods, Chapter A 1.3.5.17, Detection of Outliers.  
<https://itl.nist.gov/div898/handbook/eda/section3/eda35h.htm>

1 the acquisition applications are shown in Figure 2-1. The Bellflower acquisition scores  
2 6.4, well above the threshold of 3.5 that signifies an outlier.

3 There is no discernable correlation in the rate base per connection with the  
4 number of connections in the systems which range from under 30% to over 250% the  
5 number of connections in the BMWS. The high rate base per connection requested in the  
6 Application therefore cannot be attributed to the number of connections in the system.

### 7 **The Commission Must Determine Rate Base Consistent with Existing Rules.**

8 The Application requests the entire purchase price for BMWS be transferred to  
9 Cal Am's rate base. In support, the Application provides valuations of the system that  
10 include wells and water rights<sup>37</sup>. Section 2720 (a) of the Public Utilities Code<sup>38</sup> requires  
11 the use of the standard of a fair market value when establishing the rate base only for the  
12 distribution system of a public water system. The Application's use of valuations that  
13 include wells and water rights<sup>39</sup> which are not part of the distribution system<sup>40</sup> to support  
14 the requested rate base is therefore inappropriate.<sup>41</sup>

### 15 **The Applicants' Estimates of the Value of the BMWS vary widely and** 16 **Neglect Depreciation Factors that lead to an Inflated Valuation.**

17 The Application presents two valuations in support—one based on Reproduction  
18 Cost New Less Depreciation<sup>42</sup> and one based on Replacement Cost New Less  
19 Depreciation methodologies.<sup>43</sup> There are significant differences between these

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<sup>37</sup> Direct Testimony of Mark Reifer dated Sept. 14, (2018), Attachment 1.

<sup>38</sup> [http://leginfo.legislature.ca.gov/faces/codes\\_displaySection.xhtml?sectionNum=2720.&lawCode=PUC](http://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=2720.&lawCode=PUC)

<sup>39</sup> Water rights and wells add up to 58 % of the total appraised value in the Direct Testimony of Mark Reifer dated Sept. 14, 2018, Attachment 1 and 78% of the total appraised value in the appraisal performed by AKM consulting engineers - City of Bellflower Municipal Water System Valuation 2014 Final Report, prepared by AKM Consulting Engineers, Irvine, CA, (2015), Appendix A, Pages 5-7

<sup>40</sup> U.S. Environmental Protection Agency Drinking Water Distribution Systems (Attachment 2-3)

<sup>41</sup> See the analysis of the Public Advocates Office's witness, Ms. Eileen Odell (Chapter 1)..

<sup>42</sup> City of Bellflower Municipal Water System Valuation 2014 Final Report, prepared by AKM Consulting Engineers, Irvine, CA, (2015), (AKM Report), Page 1.  
<https://www.bellflower.org/civicax/filebank/blobdload.aspx?BlobID=28601>

<sup>43</sup> Direct Testimony of Mark Reifer dated Sept. 14, 2018, Page 2.

1 valuations regarding the value of the same components of the distribution system and  
2 they omit important depreciation contributors which results in an inflated valuation.

3 According to AKM's valuation report,<sup>44</sup> about 71% of the pipes in the BMWS  
4 distribution system are made of a now obsolete material known as Asbestos Cement  
5 ("AC") – a composite of cement reinforced with asbestos fibers, with the balance being  
6 steel ("STL").<sup>45</sup> The AKM report does not clearly explain the methodology used in  
7 estimating the value of a pipe system built with this obsolete material. Cal Am's  
8 valuation<sup>46</sup> of the same pipes substitutes polyvinyl chloride ("PVC") pipes for both the  
9 AC and STL pipes that exist in the BMWS. Substituting the pipe material results in an  
10 inflated valuation of the system for the following reasons:

- 11 i. Substituting pipe materials with longer service lifetimes, as done in Cal Am's  
12 RCNLD valuation, leads to underestimating the accrued physical depreciation  
13 attributable to physical deterioration AC and STL pipes have lower service  
14 lifetimes as reported in the AKM valuation of the system<sup>47</sup> than the PVC pipes  
15 used in Cal Am's valuation.<sup>48</sup>
- 16 ii. The difference in service life between the actual and substituted pipe material  
17 leads Cal Am's estimate to attribute value to pipes that have exceeded their  
18 expected service life and are fully depreciated. A comparison of Cal Am's  
19 valuation<sup>49</sup> with that of AKM,<sup>50</sup> shows that Cal Am includes about 10,000 feet

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<sup>44</sup> AKM Consulting Engineers performed an RCNLD analysis for the City of Bellflower

<sup>45</sup> City of Bellflower Municipal Water System Valuation 2014 Final Report, prepared by AKM Consulting Engineers, Irvine, CA, (2015), Appendix A, Pages 5-7  
<https://www.bellflower.org/civicax/filebank/blobdload.aspx?BlobID=28601>

<sup>46</sup> Direct Testimony of Mark Reifer dated Sept. 14, 2018, Attachment 1

<sup>47</sup> City of Bellflower Municipal Water System Valuation 2014 Final Report, prepared by AKM Consulting Engineers, Irvine, CA, (2015), Appendix A, Pages 5-7  
<https://www.bellflower.org/civicax/filebank/blobdload.aspx?BlobID=28601>

<sup>48</sup> Direct Testimony of Mark Reifer dated Sept. 14, 2018, Attachment 1

<sup>49</sup> *Id.*

<sup>50</sup> City of Bellflower Municipal Water System Valuation 2014 Final Report, prepared by AKM Consulting Engineers, Irvine, CA, (2015), Appendix A, Pages 5-7  
<https://www.bellflower.org/civicax/filebank/blobdload.aspx?BlobID=28601>

1 of STL pipe that exceeded the expected service life in 2018 according to the  
2 AKM valuation.

3 iii. AC pipes show higher rate of breaks<sup>51</sup> than PVC pipe of similar vintage. Cal  
4 Am's valuation estimate did not account for the functional obsolescence  
5 attributable to such reduced functionality.<sup>52</sup>

6 v. End-of-life costs associated with replacing, disposing or salvaging<sup>53</sup> the actual  
7 pipes present in the BMWS can be expected to be different from those of the  
8 illusory pipes that Cal Am used for its valuation. In particular, the removal and  
9 disposal of AC pipes is subject to regulations not associated with PVC pipes.<sup>54</sup>  
10 Cal Am's estimate does not account for loss in value due to such costs.

11 A proper accounting of the depreciation component of the RCNLD should  
12 consider all the factors contributing to depreciation – physical, functional and external  
13 obsolescence.<sup>55</sup> The omission of these depreciation aspects in valuations overestimates  
14 the calculated value.

15 Service connections form a large component of the value of the distribution  
16 system—almost 54% in Cal Am's appraisal (including land and easement value).<sup>56</sup> A

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<sup>51</sup> "Water Main Break Rates In the USA and Canada: A Comprehensive Study" Folkman, Steven (2018),  
*Mechanical and Aerospace Engineering Faculty Publications*. Paper 174, Figures 25 and 26.  
[https://digitalcommons.usu.edu/mae\\_facpub/174](https://digitalcommons.usu.edu/mae_facpub/174)

<sup>52</sup> "Consideration of Functional and Economic Obsolescence in the Assessment of Industrial or Commercial  
Property", Robert F. Reilly *Journal of Property Tax Assessment & Administration*, Vol. 10, No. 1, (2013), Pages  
48- 49. [http://www.willamette.com/pubs/presentations2/reilly\\_obsolescence\\_winter2013.pdf](http://www.willamette.com/pubs/presentations2/reilly_obsolescence_winter2013.pdf)

<sup>53</sup> "Fair Value -The Meaning and Application of the Term "Fair Valuation: as used by Utility Commissions",  
Harleigh H. Hartmann, 1920, Pages 204 – 206.  
<https://babel.hathitrust.org/cgi/pt?id=pst.000057413471;view=1up;seq=9> (**Attachment 2-1**)

<sup>54</sup> Examples of regulations/restrictions specific to handling/removing of AC pipes can be seen here - Bay Area Air  
Quality Management District- Compliance Advisory of Asbestos Control Requirements for Pipe Bursting and  
Pipe Reaming June 21, 2006 - [http://www.baaqmd.gov/~media/files/compliance-enforcement/advisories/asbestos-renovation/adv\\_062006\\_asbestos\\_pipe\\_reaming.pdf?la=en](http://www.baaqmd.gov/~media/files/compliance-enforcement/advisories/asbestos-renovation/adv_062006_asbestos_pipe_reaming.pdf?la=en)

<sup>55</sup> "Consideration of Functional and Economic Obsolescence in the Assessment of Industrial or Commercial  
Property", Robert F. Reilly *Journal of Property Tax Assessment & Administration*, Vol. 10, No. 1, 2013, Pages  
48. [http://www.willamette.com/pubs/presentations2/reilly\\_obsolescence\\_winter2013.pdf](http://www.willamette.com/pubs/presentations2/reilly_obsolescence_winter2013.pdf) (**Attachment 2-2**)

<sup>56</sup> Direct Testimony of Mark Reifer dated Sept. 14, 2018, Attachment 1.

1 large discrepancy exists between the value ascribed by Cal Am<sup>57</sup> and AKM<sup>58</sup> to them.  
2 Cal Am values these service connections at more than 3 times the value estimated by  
3 AKM. In addition, Cal-Am uses a 50-year service life for the service connections while  
4 AKM uses a 30-year service life.

5 The large differences in the assessments of the same components of the  
6 distribution system and the failure to account for all depreciative factors make the  
7 valuations of the distribution system presented in support of the Application unreliable  
8 and unreasonable.

#### 9 **IV. CONCLUSION**

10 The Application proposes an unreasonably large rate base following the  
11 acquisition of the BMWS. In support of the proposed acquisition price and proposed rate  
12 base, Cal Am provides valuations of the water system that show large differences in the  
13 valuation components, neglect to properly consider all forms of depreciation, and are  
14 inconsistent with P.U. Code § 2720. Given these factors and their implications as  
15 discussed by other witnesses of the Public Advocates Office,<sup>59</sup> the Commission should  
16 deny the Application.

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<sup>57</sup> *Id.*

<sup>58</sup> City of Bellflower Municipal Water System Valuation 2014 Final Report, prepared by AKM Consulting Engineers, Irvine, CA, (2015), Appendix A, Page 9.

<sup>59</sup> See the analysis of the Public Advocates Office's witnesses, Mr. Yong Cao (Chapter 3) and Ms. Anusha Nagesh (Chapter 4).

## CHAPTER THREE: FINANCIAL IMPLICATIONS

### I. INTRODUCTION

In 2007, the City of Bellflower (“City”) established the Bellflower Municipal Water System (“BMWS”) to operate the water system it had acquired from the Peerless Water Company (“Peerless”), a Class C water company, through a condemnation proceeding. In its last authorized general rate increase for Test Year 2003, Peerless had a rate base of \$453,935.<sup>60</sup> The City incurred \$6,212,081, including \$412,081 in transaction costs<sup>61</sup> to condemn the Peerless system. After the condemnation, the Commission revoked Peerless’ Certificate of Public Convenience and Necessity.<sup>62</sup>

The City’s acquisition of Peerless included 986 acre-feet of water rights that BMWS now owns.<sup>63</sup> In the proposed transaction with Cal Am, the City would retain approximately one-quarter (286 acre-feet) of the water rights it acquired from Peerless. Cal Am would receive 700 acre-feet of the water rights<sup>64</sup> or approximately 4% less than the system’s highest annual demand (732 acre-feet) to occur over the past ten years.<sup>65</sup>

The BMWS has been receiving subsidies from the City’s general fund for more than a decade. In addition to the subsidies received, BMWS is facing looming infrastructure liabilities in excess of \$36 million. The City issued a Request for Proposal to purchase BMWS in May 2016. The City received proposals from Cal Am, California Water Service, Golden State Water Company, and Liberty Utilities.<sup>66</sup> Following a special

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<sup>60</sup> Resolution No. W-4472 (Attachment 3-1).

<sup>61</sup> City of Bellflower Municipal Water System 2018 Annual Report pg. 12, (Attachment 3-2).

<sup>62</sup> Resolution No. W-4656 (Attachment 3-3).

<sup>63</sup> City of Bellflower Municipal Water System 2018 Annual Report pg. 5 (Attachment 3-2).

<sup>64</sup> Direct Testimony of Garry M. Hofer Q/A 7.

<sup>65</sup> City of Bellflower Municipal Water System 2018 Annual Report pg. 8, (Attachment 3-2).

<sup>66</sup> Proposals to Purchase from California Water Service, Golden State Water Company, and Liberty Utilities (Attachment 3-4).

1 municipal election on November 8, 2016, the City selected Cal Am’s proposal of  
2 \$17,000,000 to acquire a substantial portion of the BMWS’s assets.<sup>67</sup>

## 3 **II. SUMMARY OF ANALYSIS**

4 The Commission should deny the Application because the proposed transaction  
5 would ultimately result in Cal Am’s existing ratepayers funding an acquisition price and  
6 pending liabilities that total approximately twelve times Cal Am’s existing investment on  
7 a per connection basis. The Commission should also deny the Application because, in  
8 addition to being relieved of its current and pending liabilities totaling more than \$45  
9 million, the City would receive more than \$12 million in net proceeds if the proposed  
10 \$17,000,000 acquisition is approved. On a stand-alone basis, revenue for BMWS would  
11 need to increase 300% to accommodate the proposed acquisition price and anticipated  
12 capital improvements, while there would be a 212% increase in revenue needed if the  
13 BMWS were to continue operations under its current ownership.<sup>68</sup> This is the result of  
14 both different cost structures and sources of revenue currently available to BMWS that  
15 will not be available following the proposed transaction.

## 16 **III. ANALYSIS**

### 17 **Existing Liabilities of BMWS.**

18 BMWS is the City’s sole business-type activity.<sup>69</sup> The initial capitalization of  
19 BMWS occurred with the issuance of \$8.23 million in Certificates of Participation  
20 (“Bonds”) by the City.<sup>70</sup> In October 2008, the City commenced making interest-only  
21 payments and beginning in October 2010, the City began making principal payments to  
22 the holders of the Bonds at a cost of \$135,000 per year,<sup>71</sup> which by 2017 increased to

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<sup>67</sup> Attachment 1 of Amended Application 18-09-013.

<sup>68</sup> “Stand-Alone” refers to self-sustaining operations without consolidation or subsidies from other areas. Cal Am has proposed that BMWS operations and costs be consolidated with other districts.

<sup>69</sup> City of Bellflower Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018 pg. 36.

<sup>70</sup> Similar to municipal bonds, Certificates of Participation are an alternative form of financing that allows an investor to buy a share in the improvements or infrastructure the government entity intends to fund. Investopedia.com.

<sup>71</sup> City of Bellflower Municipal Water System 2009 Annual Report, pg. 3 & 9, (Attachment 3-5).



1       \$170,000 per year.<sup>72</sup> In 2017, the City estimated that a total of \$7,166,291 in principal  
2       and interest<sup>73</sup> would be outstanding on October 2, 2018, which was the date before which  
3       the City's municipal water commission recommended the BMWS be sold.<sup>74</sup>

4               While the bulk of BMWS financing is derived from water sales, as a result of  
5       inadequate rate structures and revenues, the City's general fund has made significant cash  
6       advances to BMWS in the form of loans and in-kind services in order for BMWS to  
7       maintain operations.<sup>75</sup> As of November 2017, the BMWS had amassed a total of  
8       \$2,676,538 in repayable advances from the City's general fund.<sup>76</sup> Combining these  
9       general fund advances with the principal and interest payments on the aforementioned  
10      Bonds, the BMWS reported repayable liabilities totaling \$9,132,012 as of June 30,  
11      2018.<sup>77</sup>

12             In addition to the repayable advances from the City's general fund, the BMWS  
13      received annual subsidies from the City's general fund in the form of staff support and  
14      foregone interest that has averaged approximately \$100,000 per year. The negative  
15      impact of BMWS operations on the City's general fund was reported by a local  
16      newspaper in 2016 when the City's Director of Public Works was quoted as saying, "Last  
17      year, when the Water Commission made a recommendation to Council to explore the sale  
18      of the Municipal Water System, it was based on recommendations that the sale would  
19      stop the drain on general fund dollars, totaling 2.7 million, would supply clean and  
20      reliable water and guaranteed rates."<sup>78</sup>

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<sup>72</sup> City of Bellflower Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2017, pg. 17 (Attachment 3-6).

<sup>73</sup> City of Bellflower Staff Report, November 12, 2017, pg. 1 (Attachment 3-7).

<sup>74</sup> City of Bellflower Staff Report, May 9, 2016, pg. 2 (Attachment 3-8).

<sup>75</sup> City of Bellflower Municipal Water System 2011 Annual Report (Attachment 3-9).

<sup>76</sup> City of Bellflower Staff Report, November 12, 2017, pg. 1 (Attachment 3-7).

<sup>77</sup> City of Bellflower Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018 pg. 35 (Attachment 3-10).

<sup>78</sup> *Possible Sale of Bellflower Municipal Water System*, Los Cerritos News, 10/17/2016 (Attachment 3-11).

1           **Future Anticipated Liabilities of BMWS.**

2           In 2014, AKM Consulting Engineers estimated that BMWS would require capital  
3 improvements of \$36,969,943 from 2015 to 2038.<sup>79</sup> According to AKM, the majority of  
4 these improvements totaling approximately \$28 million are needed within the next 10  
5 years.<sup>80</sup> In response to discovery, the City indicated that \$703,765 of these capital  
6 improvements had been completed leaving \$36,266,178 in anticipated future liabilities.<sup>81</sup>  
7 On a stand-alone basis, this amount of necessary investment equates to \$19,850 per  
8 service connection (BMWS has 1,827 service connections). Combined with Cal Am's  
9 proposed acquisition price of \$17,000,000 the total investment on a stand-alone basis  
10 equals \$29,155 per service connection or approximately 12 times more than Cal Am's  
11 existing statewide investment per service connection of \$2,262 as reported in the  
12 company's 2017 Annual Report to the Commission.

13           **Estimating Revenue Necessary for Existing and Future Liabilities.**

14           Direct Testimony in Cal Am's amended application<sup>82</sup> indicates that \$2,936,000 in  
15 annual revenue would be needed to support the proposed acquisition price and operating  
16 expenses of BMWS (not including the \$36 million in anticipated investment) on a stand-  
17 alone basis.<sup>83</sup> Cal Am further alleges this annual revenue would represent a 59.99%  
18 increase from BMWS's current estimated revenues of \$1,835,000. However, this  
19 percentage increase is understated. For example, the revenue from reclaimed water  
20 included in the \$1,835,000 of existing revenues will not be available to Cal Am following  
21 the transaction.<sup>84</sup> Similarly, the existing revenue associated with leasing water rights  
22 owned by BMWS will be unavailable because the proposed transaction includes only 700

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<sup>79</sup> Cal Am neither concurs with nor rejects AKM's assessment (Attachment 3-12).

<sup>80</sup> City of Bellflower Municipal Water System Valuation 2014 Final Report Appendix B (Attachment 3-13).

<sup>81</sup> A.18-09-013, Public Advocates Office Data Request No. CoB-SB-2019-01 Q5 (Attachment 3-14).

<sup>82</sup> Cal Am submitted an amended application on January 22, 2019.

<sup>83</sup> Attachment 1 to CAW Amended Morse Direct Testimony.

<sup>84</sup> Cal Am Response to Discovery SB-2019-01 Question 12(b)(i) (Attachment 3-15).

acre-feet of BMWS's existing 986 acre-feet of water rights.<sup>85</sup> Additionally, the revenue increase of 59.99% estimated by Cal Am assumes that the \$500,000 in existing revenue received from the sale of excess groundwater to the neighboring mutual water company will also increase by the same percentage. This is an impossible assumption given the maximum amount of water Cal Am has agreed to provide (2,500 acre-feet annually) multiplied by the total rate (\$177 per acre-foot) yields just \$442,500 in revenue.<sup>86</sup>

Furthermore, in estimating the necessary revenue on a stand-alone basis, Cal Am excludes more than \$300,000 in labor and benefits. In response to discovery, Cal Am explained that "all operations for Bellflower will be performed out of Cal Am's Rosemead District Office and that there will be no additional staffing requirements and therefore those labor costs will no longer be necessary."<sup>87</sup> Even if it is true that no incremental labor costs will be incurred to operate BMWS, an accurate accounting of the cost to operate BMWS on a stand-alone basis should properly allocate that portion of existing labor that would be utilized for BMWS. To do otherwise would understate the true cost to operate BMWS.

At current tax rates and Cal Am's authorized return, the additional \$36 million in anticipated capital investment would require additional annual revenue of \$4,558,763 as shown in the Table 3-1.

**Table 3-1: Additional Revenue Increase Needed Under Cal Am's Operation**

Anticipated Capital Investment	\$36,266,178
Net Income at 7.61% Authorized Return	\$2,759,856
Taxes to Yield Net Income <sup>88</sup>	\$1,073,583
Annual Depreciation (Assuming 50-Year Life)	\$725,324
Additional Annual Revenue	\$4,558,763

<sup>85</sup> A.18-09-013, Public Advocates Office Data Request No. CoB-SB-2019-02 (Attachment 3-16).

<sup>86</sup> Exhibit C of Exhibit 3 of the Amended Application.

<sup>87</sup> Cal Am Response to Discovery SB-2019-01 Question 12(a)(i) (Attachment 3-15).

<sup>88</sup> Uses the same 1.3890 tax gross-up as Cal Am (Attachment 1 to Direct Testimony of David Morse).

Combining the \$2,936,000 that Cal Am estimates to fund BMWS's post-acquisition operations with the additional revenue of \$4,558,763 needed for capital improvements produces a total of \$7,494,763 in annual revenue requirement. Compared to the \$1,835,000 in existing revenue, an annual revenue requirement of \$7,494,763 would necessitate an approximate 300% increase (more if correcting for the understated labor expenses and overstated sources of revenue previously discussed).

By comparison, the City would need to increase BMWS's existing revenue 212% in order to fund anticipated capital improvements, begin self-sustaining operations, and reimburse the City's general fund by 2039,<sup>89</sup> which is the date the existing Certificates of Participation are to be repaid. As shown in the Table 3-2, this calculation assumes (1) a current all-in bond rate<sup>90</sup> of 4.07% would be available for a 20-year straight-line amortization of necessary capital improvements and a 10-year straight-line amortization of existing liabilities, and (2) an additional \$100,000 in annual revenue would be needed to avoid continuing general fund subsidies.

**Table 3-2: Additional Revenue Needed Under the City's Operation**

Annual Amount for a 20-year amortization of \$36,266,178 at 4.07%. <sup>91</sup>	\$2,667,776
Annual Amount for a 10-year amortization of \$9,132,012 at 4.07%. <sup>92</sup>	\$1,120,742
Average Annual General Fund Subsidy	\$100,000
Additional Revenue Needed	\$3,885,518
Existing Annual Revenue	\$1,835,000
Total Annual Revenue Needed	\$5,723,518

<sup>89</sup> City of Bellflower 2017 - 2019 Operating Budget, pg. 297, 358-359 (Attachment 3-17).

<sup>90</sup> City of Bellflower Staff Report, December 11, 2017, pg. 117 (Attachment 3-18).

<sup>91</sup> Annual Amount for a 20-year amortization of \$36,266,178 at 4.07% (Attachment 3-19).

<sup>92</sup> Annual Amount for a 10-year amortization of \$9,132,012 at 4.07% (Attachment 3-20).

1           **Unreasonable Profit at the Expense of Cal Am’s Existing Ratepayers.**

2           The City has estimated \$7,617,000 in net proceeds or profit<sup>93</sup> from the proposed  
3           sale of BMWS to Cal Am. The City’s calculation deducts from the proposed purchase  
4           price the cost of repaying outstanding Bonds, reimbursing Federal grants, and  
5           reimbursing general fund advances, before adding other reserve and operating funds  
6           made available to the City after repayment of the Bonds.<sup>94</sup> However, the City’s  
7           estimated profit of \$7.6M from the transaction is understated.

8           First, the estimated \$7,617,000 in profit to the City assumes that \$1,500,000 in  
9           Federal grants will be repaid. In response to discovery, the City identified the potential  
10          repayment amount for Federal grants to be approximately \$897,000 and noted that it had  
11          a pending request to be exempted from this repayment.<sup>95</sup> By including the \$897,000 for  
12          repayment of grants rather than the initially estimated \$1,500,000, the net profit to the  
13          City from the proposed acquisition by Cal Am increases to \$8,220,000 (or \$9,117,000 if  
14          the City’s exemption request is granted).

15          Second, the City will retain 286 acre-feet of BMWS’ water rights after the  
16          proposed acquisition of BMWS by Cal Am. These are water rights that were acquired in  
17          the City’s acquisition of the Peerless Water Company using the Certificates of  
18          Participation that would be repaid from the proposed \$17,000,000 transaction price.  
19          Therefore, the value of these 286 acre-feet of retained rights should be included in the  
20          calculation of transaction proceeds.

21          In direct testimony, the City indicates that recent sales of Central Basin water  
22          rights have been completed at prices ranging from \$13,500 to \$14,500 per acre-foot.<sup>96</sup>  
23          Therefore, the City will obtain an estimated \$3,861,000 in additional net proceeds from  
24          the transaction.<sup>97</sup> Unlike the 700 acre-feet of water rights provided to Cal Am that  
25          would accompany Cal Am’s new obligation to serve customers of BMWS, the City’s

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<sup>93</sup> Profit: a financial gain, especially the difference between the amount earned and the amount spent in buying, operating, or producing something. Dictionary.com.

<sup>94</sup> City of Bellflower 2017 - 2019 Operating Budget, pg. 304 (Attachment 3-17).

<sup>95</sup> A.18-09-013, Public Advocates Office Data Request No. CoB-SB-2019-01 Q1 (Attachment 3-14).

<sup>96</sup> Direct Testimony of Mathew Payne pg. 11.

<sup>97</sup> \$13,500 \* 286 = \$3,861,000.

retained water rights represent a greater per-acre-foot value since the City will no longer have any retail potable service obligations after the proposed transaction.

As can be seen from Table 3-3, a revised calculation using the factors described above will yield the City approximately \$12,081,000 in net proceeds or profit from the proposed transaction with the potential for total proceeds exceeding \$13,000,000 if repayment of Federal grants is unnecessary and the retained water rights are valued at the higher end of the City's estimate.

**Table 3-3: Net Proceeds / Profits of the Sale of BMWS**

	City Estimate	Public Advocates Estimate	Maximum Estimated
BMWS Sale Price	\$17,000,000	\$17,000,000	\$17,000,000
Less Bond Repayment	(7,166,000)	(7,166,000)	(7,166,000)
Less Grant Repayment	(1,500,000)	(897,000)	0
General Fund Repayment	(2,710,000)	(2,710,000)	(2,710,000)
Availability of Reserves/Funds	1,993,000	1,993,000	1,993,000
286 Acre-Feet of Water Rights	0	3,861,000	4,147,000
<b>Net Proceeds / Profit</b>	<b>\$7,617,000</b>	<b>\$12,081,000</b>	<b>\$13,264,000</b>

With the profit from the sale of BMWS, the City intends to fund public projects (Fund 012). This fund would use the profit from the proposed transaction to attract new businesses, retain existing businesses, and create new community recreation facilities. In its 2017-2019 Operating Budget Report, the City identified projects such as Parking Lot Improvements, Events Center/ Fire Museum, Aquatic Center Improvements, Soccer Field, and Property Acquisition to be funded from the proceeds of the proposed transaction.<sup>28</sup>

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<sup>28</sup> City of Bellflower 2017 - 2019 Operating Budget pg. A3 (Attachment 3-17).

#### **IV. CONCLUSION**

The BMWS has \$9,132,012 of existing liabilities and an estimated \$36,266,178 in anticipated capital improvements. The City would need to increase revenue approximately 212% (or approximately triple current rates) to achieve a self-sustaining operation capable of funding necessary capital improvements. On a stand-alone basis, the revenue of BMWS would need to increase a minimum of 300% (or approximately quadruple current rates) to achieve the revenue requirements under Cal Am's ownership. The quadrupling of rates under Cal Am ownership includes net proceeds or profit of at least \$12 million for the City to fund local public projects.

**CHAPTER FOUR:**  
**ANALYSIS OF PAST, PRESENT AND FUTURE RATES**

**I. INTRODUCTION**

In 2000, the City of Bellflower (“City”) protested a merger application<sup>99</sup> between the Peerless Water Company (“Peerless”) and Southern California Water Company (“SCWC”)<sup>100</sup> stating that the customers would “see an immediate increase of 18% in their monthly bills.”<sup>101</sup> Although the City agreed that additional capital investments were needed, the City questioned SCWC’s \$11 million capital plan referencing a then five-year-old water master plan commissioned by the City that had indicated a need for capital improvements of less than \$3 million.<sup>102</sup>

Testimony from the President of a neighboring mutual water company on behalf of the City indicated that the mutual water company had considered the acquisition price offered by SCWC and believed the mutual water company could better absorb the cost of the acquisition price and all necessary capital improvement without increasing the rates charged to existing customers.<sup>103</sup> The Commission denied the proposed merger application between Peerless and SCWS.<sup>104</sup>

In 2007, the City acquired Peerless and formed the Bellflower Municipal Water System (“BMWS”). Having secured the contract with the City the year prior,<sup>105</sup> the neighboring mutual water company began operating BMWS and the City approved increases to rates which resulted in a 67% increase to the average customer’s bill in

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<sup>99</sup> A.00-05-043

<sup>100</sup> In 2005, the Southern California Water Company was renamed Golden State Water Company.

<sup>101</sup> Attachment 4-1: Letter dated July 7, 2000 from City of Bellflower to the CPUC’s Public Advisor’s Office, Pg. 1

<sup>102</sup> Attachment 4-2: Letter from City of Bellflower to the CPUC’s Public Advisor’s Office (July 7, 2000), Pg. 2

<sup>103</sup> Attachment 4-3: A.00-05-043, Prepared Direct Testimony of Dan Koops on Behalf of the City of Bellflower, lines 23-27, pg. 2

<sup>104</sup> D.01-11-064.

<sup>105</sup> Attachment 4-4: City of Bellflower Agreement File No. 320.4.



1 2007.<sup>106</sup> The City noted that the BMWS system was in “very poor condition” and needed  
2 a minimum of \$10 million in capital improvements.<sup>107</sup> In explaining the rate increase to  
3 customers, BMWS stated that “it is unfair for the residents and businesses not served by  
4 the Water System to have to pay for its purchase, repair and improvement, because those  
5 residents already have to pay for such water related expenses to their own water  
6 supplier.”<sup>108</sup>

7 In 2012, the former President of the neighboring mutual water company was  
8 elected the Mayor of Bellflower.<sup>109</sup> Following reported outrage by customers of BMWS  
9 that water bills had skyrocketed,<sup>110</sup> the City implemented a decrease in water rates  
10 lowering the average customer’s bill 7% in 2012 and another 4% in 2013.<sup>111</sup> The rates  
11 established by the City for BMWS in 2013 remained in effect through 2018.

## 12 II. SUMMARY OF ANALYSIS

13 Over the past seven years, partly due to rate decreases, average bills for customers  
14 of BMWS have declined. Over the same period of time, BMWS has relied on subsidies  
15 from the City’s general funds to maintain operations.<sup>112</sup> If BMWS had increased rates to  
16 match the trajectory of other water utilities operating in the City, the 212% increase in an  
17 average customer’s bill necessary for BMWS to be self-sustaining and fund future capital  
18 improvements would have been a more modest 60% increase. If rate impacts from the  
19 proposed transaction between the City and Cal Am were implemented uniformly across  
20 all of Cal Am’s existing ratemaking areas, each of Cal Am’s existing ratepayers would

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<sup>106</sup> Attachment 4-5: Bellflower Municipal Water System’s 2018 Annual Report, page 10 under table titled “History of MWS Water Rates.”

<sup>107</sup> Attachment 4-6: City of Bellflower Staff Report, May 15, 2007

<sup>108</sup> Attachment 4-7: Water Rate Increase Q&A – issued by BWS on April 16, 2007. Refer “Q. Why do customers have to pay to purchase, repair, or improve the system?”

<sup>109</sup> The former President of the neighboring mutual water company was re-elected Mayor of Bellflower in 2016 (Attachment 4-8.a), which was the same year the City voted to explore the sale of BMWS to Cal Am (Attachment 4-8.b).

<sup>110</sup> Attachment 4-12: *Bellflower Water Bills Skyrocket*, LA Weekly, February 11, 2009

<sup>111</sup> Attachment 4-5: Bellflower Municipal Water System’s 2018 Annual Report, page 10, refer table titled “History of MWS Water Rates.” Under columns: “Bi-Monthly Service Charge” and “Commodity charge per ccf”

<sup>112</sup> See Chapter 3 for analysis by Public Advocates Office’s witness, Mr. Yong-Cheng Cao.

1 see an immediate bill increase of \$0.85 per month. Of this amount, more than seventy  
2 percent (\$0.60 per month) would be towards meeting the profit or net proceeds accruing  
3 to the City. Factoring in the cost of capital improvements that the City estimates as  
4 necessary for the water system, Cal Am's existing customers would experience a total  
5 incremental increase of 3.20% or \$3.40 per month if allocated uniformly across all Cal  
6 Am ratemaking areas statewide.

7 Rather than consolidating rate impacts across all ratemaking districts uniformly,  
8 Cal Am proposes allocating \$9 million of the \$17 million purchase price to its Los  
9 Angeles district, with the remaining \$8 million allocated to General Office, which is then  
10 allocated to all ratemaking districts. Cal Am's proposal would result in an average  
11 monthly increase of 3.04% for Los Angeles ratepayers and 0.37% for all other Cal Am  
12 ratepayers. Assuming that the same allocation process is employed for the costs of  
13 funding anticipated future capital improvements, the ratepayers of the Los Angeles  
14 district would see an average monthly rate increase of 12.16% and all other Cal Am  
15 ratepayers would see a 1.49% increase in average rates.

### 16 **III. ANALYSIS**

#### 17 **Past and Present Rate Analysis.**

18 Residents in the City of Bellflower are served by four different water companies.  
19 The two largest companies are Bellflower-Somerset Mutual Water Company,<sup>113</sup> which  
20 serves approximately 61% of the City and Liberty Utilities, which serves approximately  
21 25%.<sup>114</sup> The following graph compares the average customer bill for these two companies  
22 with that of BMWS, which serves approximately 10% of the City.<sup>115</sup>

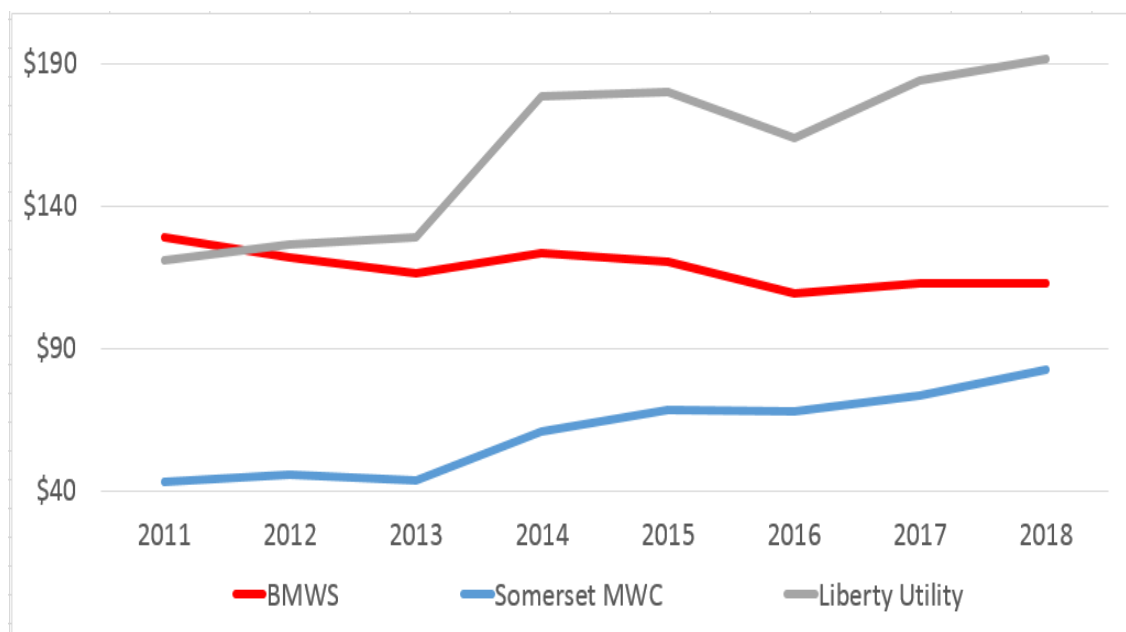
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<sup>113</sup> Attachment 4-9: The City contracts with Bellflower Somerset Mutual Water (BSMWC), which has operated BMWS since 2007. In BSMWC's May 16, 2016 Board meeting, there was a "consensus" decision by "the board to not respond to the Request for Proposal" for purchase from the City.

<sup>114</sup> Attachment 4-10: Bellflower Municipal Water System 2018 Annual Report, page: 9, table titled "Water Sources,"

<sup>115</sup> Bellflower Home Garden Water Company serves approximately 4% of the City and charges flat rates.

**Figure 4-1: Average Bi-Monthly Water Bills (2011 – 2018)**



1 In contrast to the two major water companies serving the City, the average  
2 customer of BMWS has experienced a decreasing trend in water bills over the past seven  
3 years. The general declining trend in bills for BMWS customers is difficult to reconcile  
4 given the City’s continuing general fund subsidies to BMWS and the City’s recognition  
5 that significant capital investment is needed.<sup>116</sup>

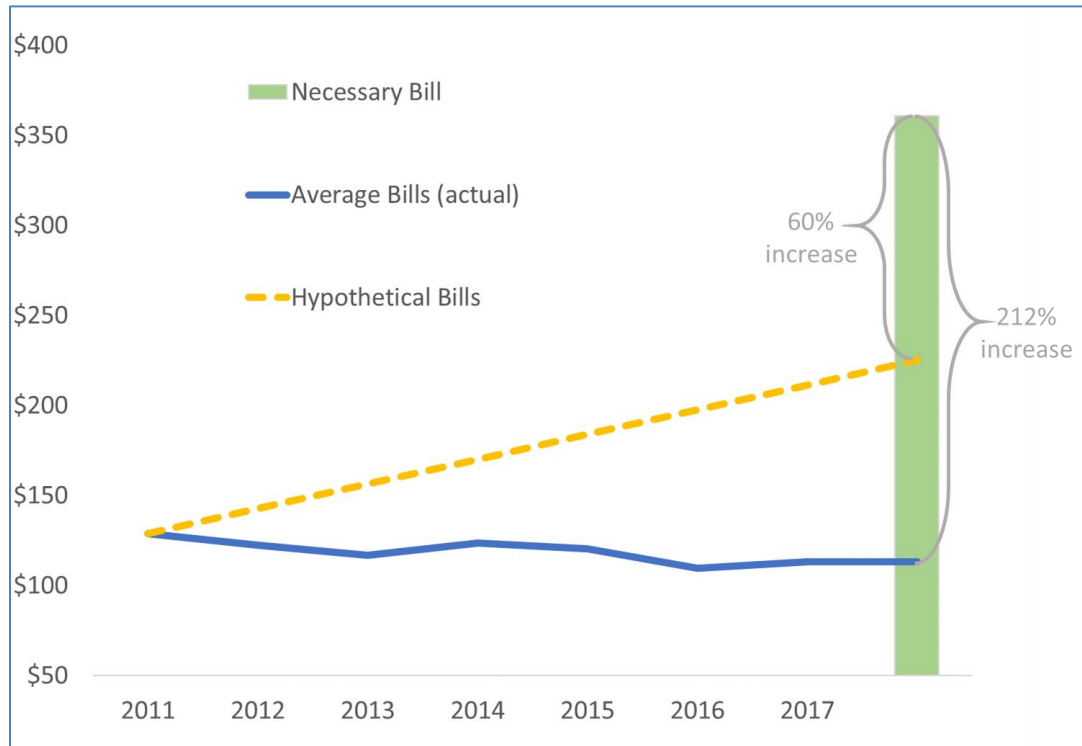
6 In order to become a self-sustaining system capable of funding necessary capital  
7 improvements, average customer bills in the BMWS would need to increase by  
8 approximately 212% on a stand-alone basis.<sup>117</sup> If rates and average bills for BMWS  
9 customers had followed the same trajectory of the other two water utilities shown above  
10 in Figure 4-1, the necessary increase in average bills for BMWS to be self-sustaining and  
11 fund necessary capital improvements would have been a more modest 60% increase.  
12 Figure 4-2, below, illustrates this point by comparing the average bill necessary for  
13 BMWS to be self-sustaining (green bar) with the actual average customer bill (blue line)

<sup>116</sup> Attachment 4-9: Refer page 11 of 2018 BMWS’s Annual Report, table titled “City General Fund Expenditures for MWS.”

<sup>117</sup> See the analysis of the Public Advocates Office’s witnesses, Mr. Yong Cao (Chapter 3).

1 and the hypothetical average bill had BMWS implemented rate increases similar to those  
2 of the other two major water utilities serving the City (yellow dashed line).

**Figure 4-2: BMWS Current Average and Estimated Bills**



### 3 **Impacts of Proposed Transaction on Cal Am’s Existing Ratepayers**

4 In its initial Application, Cal Am states that the revenue requirement for the  
5 proposed acquisition of BMWS would be allocated to a “consolidated Southern Division”  
6 as requested in Cal Am’s 2016 then-pending general rate case application.<sup>118</sup> However,  
7 the Commission did not approve the consolidation of the proposed districts into a  
8 southern division.<sup>119</sup> In its amended application, Cal Am proposes to allocate \$9.085  
9 million of the \$17 million purchase price to the Los Angeles district and \$7.915 million  
10 to General Office, which allocates costs to all Cal Am ratemaking areas.

<sup>118</sup> Refer Direct testimony of “Jonathan Morse” at Page 9, lines 12 and 13.

<sup>119</sup> Commission Decision D.18-12-021 – Pages 29 to 36, under point 6.1.3.

In addition to the proposed acquisition price, the City estimates approximately \$36 million in needed capital improvements for BMWS.<sup>120</sup> The table below (Table 4-1) presents the incremental increase in the average monthly bill of Cal Am's existing ratepayers if the proposed acquisition price and capital improvements were spread uniformly across all Cal Am ratemaking districts.

**Table 4-1: Bill Increases with Costs Uniformly Distributed Across Cal Am Districts**

	Acquisition price	Profit from Acquisition	Acquisition Price + Capital Investment
Revenue Requirement	\$ 1,795,000	\$ 1,275,611	\$ 7,180,230
Existing customer count	176,171		
Incremental Increase per customer per month	\$ 0.85	\$ 0.60	\$ 3.40
Current Average Bill <sup>121</sup>	\$106.01		
Increase percentage	0.80%	0.57%	3.20%

As shown in Table 4-1, if revenue requirements for the proposed acquisition were allocated uniformly across all of Cal Am's districts statewide, an incremental 0.80% monthly increase in existing average bills would be required. The portion of the acquisition price representing only the profit to the City would require an average bill increase of 0.57% for each of Cal Am's existing statewide customers per month. Combining the revenue requirements for the proposed acquisition price and estimated capital improvements, the increase to average bills in all of Cal Am's ratemaking districts would be 3.20%.

In its amended Application, Cal Am recommends allocating the proposed acquisition price between the Los Angeles district and Cal Am's General Office. The table below (Table 4-2) applies Cal Am's proposed allocation method to illustrate the

<sup>120</sup> Direct testimony of Jeffrey Stewart, at Page 4 lines 3 to 5.

<sup>121</sup> Refer to Commission decision D.18-12-021, Appendix A, Page: 2 Operating Revenue at Proposed rates for 2018 is \$224,130,800 and Average Number of Customers on Page: 21 is 176,171.

incremental increase in bills in order to accommodate the proposed acquisition price and the combination of acquisition price and estimated capital improvements.

**Table 4-2: Bill Increases using Cal Am’s Proposed Allocation Method**

	Acquisition Price		Acquisition Price + Capital Investment	
	Los Angeles	General Office	Los Angeles	General Office
Revenue Requirement	\$ 959,000	\$ 836,000	\$ 3,836,727	\$ 3,343,300
Existing customer count	27,650	176,171	27,650	176,171
Increase per Customer per Month	\$ 2.89	\$ 0.40	\$ 11.56	\$ 1.58
Current System Average Bill <sup>122</sup>	\$ 95.08	\$ 106.01	\$ 95.08	\$ 106.01
Increase percentage	3.04%	0.37%	12.16%	1.49%

As shown in the table above, if Cal Am’s proposed allocation methodology is adopted, the average bill in the Los Angeles district would eventually need to increase 12.16% to account for the proposed acquisition price of BMWS and the estimated capital improvements.

#### **IV. CONCLUSION**

In 2000, the City objected to the merger of Peerless and SCWC stating that an 18% increase in customer rates “would be very painful.”<sup>123</sup> The Commission denied the merger application. In the proposed transaction, all of Cal Am’s ratepayers in the Los Angeles district, including lower-income customers, will face a potential increase of 12.16% in rates for services and benefits that will accrue mostly to the customers of BMWS and the City of Bellflower.<sup>124</sup>

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<sup>122</sup> D.18-12-021, Appendix A, Page: 2 Operating Revenue at Proposed rates for 2018 is \$224,130,800 and Average Number of Customers on Page: 21 is 176,171. Los Angeles total customer count adopted for TY 2018 is 27,650. Average customer bill per month for LA= \$31,548,500 operating revenue / 27,650 customers / 12 months = \$95.08 per month.

<sup>123</sup> Attachment 4-6: City of Bellflower Staff Report, May 15, 2007.

<sup>124</sup> Attachment 4-11: An extract from the City’s “2017-2019 Budget Message” showing investment breakdown that would be available through net proceeds from the sale of BMWS to Cal Am.

1           In 2007, the City stated “it is unfair for the residents and businesses not served by  
2           the Water System to have to pay for its purchase, repair and improvement, because those  
3           residents already have to pay for such water related expenses to their own water  
4           supplier.”<sup>125</sup> If the proposed transaction is approved, Cal Am’s existing customers will be  
5           paying not only to relieve the City from significant existing and future liabilities but to  
6           fund public projects within the City with net proceeds from the proposed transaction that  
7           exceed \$12 million.

8           The Commission should deny the application.

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<sup>125</sup> Attachment 4-7: Water Rate Increase Q&A – issued by BWS on April 16, 2007. Refer “Q. Why do customers have to pay to purchase, repair, or improve the system?”

1                   **Statement of Qualifications and Experience of Mr. Richard Rauschmeier**

2                   My name is Richard Rauschmeier. I am currently employed by the CPUC as a  
3                   Program and Project Supervisor with the Public Advocates Office's Communications and  
4                   Water Policy Branch. My business address is 505 Van Ness, San Francisco, California.  
5                   In proceeding A.18-09-013, I am responsible for general oversight and for summarizing  
6                   the Public Advocates Office's witnesses' testimony in the Executive Summary.

7                   Since 2008, I have worked at the CPUC to develop and deliver testimony that best  
8                   represents California ratepayer interests. In my current role, I oversee the work of a team  
9                   of engineers, analysts, and auditors that examine the records and proposals of California's  
10                  investor-owned utilities. In more than a dozen formal proceedings before the CPUC, I  
11                  have provided analysis, testimony, and/or general guidance on ratemaking for the largest  
12                  of the investor-owned water utilities. I have been a licensed water treatment and  
13                  distribution operator (Grade 3) in the state of California and completed numerous classes  
14                  and seminars on utility finance, accounting, economic regulation, and ratemaking.

15                 I received a bachelor's degree in environmental science from the Johns Hopkins  
16                 University with a concentration in advanced water treatment and a master's degree from  
17                 Purdue University focusing on corporate finance.



1                   **Statement of Qualifications and Experience of Ms. Eileen Odell**

2                   My name is Eileen Odell. I am currently employed by the CPUC as a Public  
3                   Utilities Regulatory Analyst IV, assigned to the Public Advocates Office's  
4                   Communications and Water Policy (CWP) Branch. For this proceeding, I was  
5                   responsible for submitting testimony on the Framework for Review of the proposed  
6                   transaction.

7                   I graduated from the University of California, San Diego with a Bachelor of Arts  
8                   degree in International Studies and Political Science. I later graduated from the  
9                   University of California, Hastings College of the Law with a Juris Doctor degree. I am  
10                  admitted to the California State Bar. I attended the 36th Western National Association of  
11                  Regulatory Utility Commissioners/Michigan State University Utility Rate School in 2015  
12                  and the Institute of Public Utility's Advanced Regulatory Studies program at Michigan  
13                  State University in 2018.

14                  With the Public Advocates Office's CWP branch, I have previously submitted  
15                  testimony on the impacts of two telecommunications mergers on low income programs. I  
16                  have submitted testimony in three general rate cases (GRC), analyzing revenues and rate  
17                  design for Class A water utilities and for one small local exchange carrier. Additionally,  
18                  I was the lead analyst for and developed testimony for an intra-GRC cycle water utility  
19                  Application, again focusing on revenues and rate design. I have analyzed and prepared  
20                  protests for Advice Letters seeking CPUC approval for telecommunications rate increases  
21                  as well as for drought-related issues. Additionally, I have analyzed project proposals for  
22                  the California Advanced Services Fund (CASF) infrastructure grant program as well as  
23                  for the CASF public housing account program. Prior to joining the CPUC, I was  
24                  employed by the Office of Sonoma County Counsel for one year, serving as a Senior Law  
25                  Clerk. I also was employed by San Francisco Public Utilities Commission for one year  
26                  as an Aide in the Real Estate Services division. I served as a Law Clerk for the City  
27                  Attorney of San Francisco, in its Land Use and Environment team as well as its Public  
28                  Utilities Commission team.

1                   **Statement of Qualifications and Experience of Mr. Sateesh Bajikar**

2                   My name is Sateesh Bajikar. I am currently employed by the CPUC as an  
3                   Utilities Engineer, assigned to the Public Advocates Office’s Communications and  
4                   Water Policy (CWP) Branch. For this proceeding, I was responsible for  
5                   submitting testimony on the “Analysis of Valuations Provided and Rate Base  
6                   Proposed.”

7                   I graduated from the University of Poona (India) with a Bachelor of  
8                   Engineering degree in Polymer Engineering. I subsequently graduated from the  
9                   from the University of Louisville with a Master of Science degree in Chemical  
10                  Engineering and from the University of Wisconsin-Madison with a Doctor of  
11                  Philosophy degree in Materials Science.

12                  With the Public Advocates Office’s CWP branch, I have been involved in  
13                  assessing annual advice letters and plant construction reports for the CHCFA.  
14                  Prior to joining the CPUC, I worked for about 20 years with several private  
15                  industries and government laboratories in many different interdisciplinary  
16                  engineering roles to develop, commercialize and support technologies and  
17                  products for the telecommunications, aerospace, sensors and data storage fields.

1                   **Statement of Qualifications and Experience of Mr. Yong-Cheng Cao**

2  
3                   My name is Yong Cheng Cao. My business address is 505 Van Ness  
4 Avenue, San Francisco, California, 94102. I am employed by the California Public  
5 Utilities Commission (CPUC) in the Public Advocates Office as an Auditor I.

6                   I graduated from the University of California, Berkeley with a Bachelor's  
7 in Applied Mathematics and Environmental Economics and Policy.

8                   In my experience at the CPUC in the Public Advocates Office  
9 Communications and Water Policy Branch, I have analyzed performance metrics  
10 for Class A water utilities. I have sponsored testimony for Great Oaks Water  
11 Company's contamination proceeds memorandum account. I assisted in reviewing  
12 California American Water's Advice Letter 1214 for the Chromium VI  
13 memorandum account.

14                  Prior to joining the CPUC, I received my education in mathematics,  
15 economics and accounting from University of California, Berkeley.

16                  For this proceeding, I prepared analysis and testimony addressing the  
17 financial implications of the proposed acquisition of Bellflower Municipal Water  
18 System by Cal Am.

1                   **Statement of Qualifications and Experience of Ms. Anusha Nagesh**

2  
3                   My name is Anusha Nagesh. I am currently employed by the California  
4                   Public Utilities Commission (CPUC) as Auditor 1, assigned to the Public  
5                   Advocates Office's Communications and Water Policy (CWP) Branch. For this  
6                   proceeding, I was responsible for submitting testimony analyzing past, present and  
7                   future rates.

8                   I graduated from the Indo-German Chamber of Commerce with a Post  
9                   Graduate Certificate in Business Administration. I have a bachelor's degree from  
10                  Mount Carmel College in Commerce, specialized in finance and accounting.

11                  In my experience at the CPUC in the Public Advocates Office  
12                  Communications and Water Policy Branch, I have submitted testimony on  
13                  Operation and Maintenance Expenses (O&M), Administration and General  
14                  Expenses (A&G), Payroll Expenses and Balancing and Memorandum Accounts  
15                  (excluding Contamination Proceeds Memorandum Account) in the most recent  
16                  Great Oaks Water Company General Rate Case (GRC) proceeding, I have also  
17                  assisted in the most recent San Jose Water Company GRC Proceeding and  
18                  performed affordability bill analyses for Class A Water Utilities.

19                  Prior to joining the CPUC, I was working in Lufthansa Technik services for  
20                  four years under multiple roles including Materials Manager, AOG  
21                  Buyer/Coordinator and as a Finance Team Assistant.